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S E C R E T SECTION 01 OF 03 SHANGHAI 000379

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E.O. 12958: DECL: MANUAL REVIEW, X1
TAGS: [PGOV](#) [PINR](#) [EINV](#) [ECON](#) [CH](#)
SUBJECT: EAST CHINA--ZENG QINGHONG STEPPING DOWN, WU YI RISING?

REF: A) SHANGHAI 315; B) 06 SHANGHAI 5742; C) SHANGHAI 23; D) 06 SHANGHAI 6344

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CLASSIFIED BY: Kenneth Jarrett, Consul General, U.S. Consulate,
Shanghai, Department of State.
REASON: 1.4 (b), (c), (d)

11. (C) Summary. One of our better-connected political contacts said that the current word among Beijing princelings was that all but the top three members of the Politburo Standing Committee would retire at the upcoming Party Congress as President Hu Jintao tried to consolidate his power and purge former-President Jiang Zemin's supporters. Press reports that Vice President Zeng Qinghong had submitted a letter of resignation were accurate, according to this contact. Zeng had decided to resign rather than risk splitting the party by continuing on as a symbol of two power centers. Despite her age, Vice Premier Wu Yi was currently Hu's favorite to replace Zeng as Vice President. The one person most likely to present a problem to Hu's plan to re-jigger the Politburo was propaganda chief Li Changchun. Although Li was still relatively young, Hu was attempting to use a past bout with liver cancer as ammunition to leverage Li out on the grounds of health concerns.
End summary.

And Then There Were Three

12. (S) During a June 20 discussion with Poloff, Carlyle's Chief China representative Luo Yi (strictly protect) said that the current rumors among his princeling contacts were that all of the Politburo Standing Committee (PBSC) members except the top three--President Hu Jintao, Premier Wen Jiabao, and legislative chief Wu Bangguo--were slated to retire at the Party Congress this fall. Luo said that Hu was hoping to push forward his political reform agenda and needed to force out the remnants of the so-called "Shanghai Gang" in order to solidify his power and do away with the residual influence of former-President Jiang Zemin. Luo said that having his people in key positions on the PBSC had allowed Jiang to exercise significant influence in party affairs after his retirement. Executive Vice Premier Huang Ju's death had struck a blow to Jiang's influence, but Hu still needed to root out Jiang's remaining followers.

Zeng Submits his Resignation

¶3. (S) Luo said that his princeling contacts confirmed recent press reports that Vice President Zeng Qinghong had submitted a letter of resignation to the PBSC (Ref A). Zeng realized that many people in the party hated him, not because of who he was, but because he was still perceived as the symbol of the Shanghai Faction. Zeng understood that if he were to push the issue and remain in power, it would perpetuate the idea that there were two power centers within the party. Luo assessed that Zeng genuinely cared about the future of the party and decided that, in accordance with the "seven up, eight down" "rule" established at the 2002 Party Congress to force out Chinese People's Political Consultative Conference Chairman Li Ruihuan, he would gracefully step aside rather than risk further tarnishing the party's image. Moreover, Zeng did not want to perpetuate Jiang's influence in politics. Luo said he got this information both from those who were pro-Zeng and those that disliked him.

¶4. (S) According to Luo, Zeng, like Hu, was a political reformer who had wanted to push forward democratic ideas. (Note: Luo did not explain what kind of democratic reforms Zeng wanted to push. End note.) Luo opined that Zeng--were he in charge--had the personal power base, connections, and political savvy to push forward reforms more drastically than Hu was capable of. However, Hu was not interested at this point in cooperating with Zeng, whom he considered a potential political threat. According to Luo, Hu worried that if Zeng mobilized the political base to carry out Hu's reforms, he might question Hu's relevance and move to oust him.

Madame Vice President?

¶5. (S) Luo said that Vice Premier Wu Yi was currently the front
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runner to replace Zeng as Vice President and number five on the PBSC. Luo said Wu was "very close" to Hu and his family. Wu frequently visited Hu at his home and knew Hu's son, Hu Haifeng, quite well. Luo said that Wu's political standing had been boosted significantly by her leadership in the Strategic Economic Dialogue (SED) process. Although she had surpassed the "mandatory" retirement age of 68 (she is currently 69)--that Zeng was citing as the reason he needed to step down--Luo said that Hu was working on bending the "rule" for her.

Li Changchun and his Political Liver

¶6. (S) Luo said that PBSC member and propaganda chief Li Changchun was the wild card in Hu's bid to purge the PBSC of Jiang supporters. Li had been at odds with Hu over the idea of political reforms and had used the propaganda apparatus as a bully pulpit to crack down on reformers. Luo believed that Li relied on his connections to Jiang to push his conservative agenda. Hu, in turn, was frustrated over his inability to force Li's compliance and control the "rogue" propaganda apparatus--and wanted Li gone.

¶7. (S) Luo said that although Li, 63, was actually younger than Hu, all of the princeling gossip these days said that Li would step down at the Party Congress. Hu was using Li's past struggle with cancer as a pretext to remove him. Luo said that Li had been diagnosed with liver cancer several years ago and had undergone treatment and major surgery to remove the infected portion. (Note: no further information was available about the timing of Li's initial bout with cancer. End note.) While the cancer had been in remission, Luo said that it was now making a "political resurgence" and that Li would be "allowed" to retire for health reasons. (Comment: Hu Jintao is no stranger to the

pretext of political illness being used to remove someone, having faced similar attacks himself over the course of his career. With Huang Ju's recent death from pancreatic cancer, Hu's argument that Li is unfit to continue his duties might have greater traction, as concern over party stability might trump Li's age card. End comment.)

The Only Constant is Change

18. (S) Luo stressed that none of these changes, including Zeng's resignation, were set in stone. He cited the fluidity of politics in the months prior to the Party Congress and said that the next three months were "like an eternity" in the Chinese political system, during which, anything could happen. The information he provided was more a snapshot of the current status of personnel wrangling than a blueprint of what was to come.

Bio Comment

19. (S) At 36, Luo is a young political operator, but his ties to the party run deep. His father had been an influential party official in Sichuan Province who retired in the 1980s to go into business. Luo's father had initially helped him get a job at the People's Bank of China (Ref B). Luo worked for Merrill Lynch and Goldman Sachs in Hong Kong, where he came to know former-Premier Zhu Rongji's daughter, Zhu Yunlai. Luo is also close friends with Lu Zhonglin (DOB 10/13/1974), the son of Zhejiang governor Lu Zushan. He has also been involved in business ventures with Hu Jintao's son and a nephew of Premier Wen Jiabao, among others (Refs C and D). Luo is also friends with National Development Reform Commission Chairman Ma Kai's daughter and her husband. In a past conversation, Luo noted that Chairman Ma had viewed "Brokeback Mountain" at Ma's home in Beijing on DVD; Ma had found it offensive for its portrayal of homosexual relationships. As a princeling himself, Luo is accustomed to operating in privileged political circles and having access to inside information.

10. (C) Luo earned an MBA at the University of Michigan where he attended from 1995-97, and a B.S. from the Southwest University of Economics and Finance in China. He is married and has two sons, ages 9 and 5, who live with his parents in Sichuan. His ex-wife, and mother of his older son, lives in

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Canada. Luo's current wife, and mother of his younger son, is in her mid 20s and is studying fashion design in Shanghai.
JARRETT